Multiple Peril Insurance Act:

Solving Coastal America's Homeowner Insurance Crisis

Congressman Gene Taylor

April 8, 2010

taylor.house.gov/InsuranceReform

Multiple Peril Insurance Act

Summary of H.R. 1264, the Multiple Peril Insurance Act

- Creates an optional program to allow property owners to buy both wind and flood coverage from the National Flood Insurance Program.
- Residential coverage to $500,000 for structure; $150,000 for contents and loss of use.
- Nonresidential coverage to $1 million for structure; $750,000 for contents and business interruption.
- Premiums would be required to cover the risk so that the new coverage would be actuarially-sound. CBO agrees that it would pay for itself.
- Multiple peril coverage would only be available where the local governments opted in by implementing International Building Codes.

Multiple Peril Insurance Act

Resolves Three Major Insurance Problems

1. **Would allow coastal property owners to buy insurance and know that hurricane damage will be covered without prolonged disputes over what was caused by wind, what was caused by water, and how policy language should be interpreted.**

2. **Would create a national hurricane insurance pool that can spread risk much more efficiently than the current system in which insurance companies abandon the coastal areas and dump policies into state high-risk pools.**

3. **Would reduce future taxpayer-funded disaster costs by closing gaps in insurance coverage, preventing insurance companies from shifting their liabilities to the government, speeding up reconstruction after disasters, and requiring stronger mitigation and building standards.**

Multiple Peril Insurance Act

GAO Report on Adjustments of Hurricane Katrina Flood Claims

- ***Insurance companies have an inherent conflict of interest* when they determine not only the damage caused by flooding that is covered under the flood policy but also the damage caused by wind that is covered under its own property casualty policy.**
- ***FEMA cannot assess whether the apportionments between flood and wind damage are reasonable* without access to the wind damage claims adjustments prepared by the insurers at the time they submit flood claims for hurricane damage.**
- ***"For a given property, NFIP does not know how each peril contributed to the total property damages or how adjusters working for the Write Your Own insurers made such determinations. As a result, FEMA cannot be certain whether NFIP has paid only for damage caused by flooding when insurers with a financial interest in apportioning damages between wind and flooding are responsible for making such apportionments."***

- NATIONAL FLOOD INSURANCE PROGRAM: Greater Transparency and Oversight of Wind and Flood Damage Determinations Are Needed, U. S. Government Accountability Office, GAO-08-28 December 2007.

Multiple Peril Insurance Act

Insurers Used "Anti-Concurrent Causation" to Shift All Liability for Multiple Peril Losses to Flood Coverage

State Farm Wind/Water Claim Handling Protocol September 13, 2005:

"Where wind acts concurrently with flooding to cause damage to the insured property, <u>coverage for the loss exists only under flood coverage.</u>"

[Emphasis added.]

Multiple Peril Insurance Act

Insurers Used the "Anti-Concurrent Causation" Clauses to Shift Liability to Flood Insurance

JUSTICE PIERCE: "So you're sequencing, if 95 percent of the home was destroyed, and then we have the event of the storm surge, then you would not pay a dime?"
MR. LANDAU: "Your Honor, if we prove that the storm surge was sufficient to cause - we have that burden, again, and that is absolutely crystal clear."
JUSTICE PIERCE: "So you wouldn't pay a dime?"
MR. LANDAU: "If - again, we wouldn't pay a dime for things where we can carry our burden, which is right there in the policy, of showing that the loss was caused concurrently –"
JUSTICE PIERCE: "I'm giving you -- the example is 95 percent of the home is destroyed, the flood comes in and gets the other five percent, and you know that. Does your interpretation of the word "sequence" mean you pay zero?"
MR. LANDAU: "Yes, your Honor."

- Nationwide attorney Christopher Landau & Miss. Supreme Court, Justice Randy "Bubba" Pierce, *Corban v. USAA* Oral Arguments before the Mississippi Supreme Court, 2009.

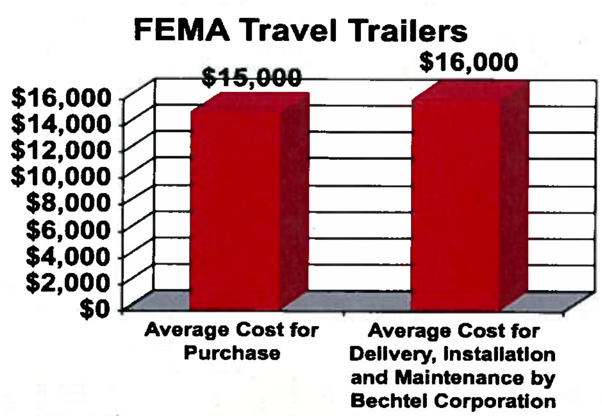
Multiple Peril Insurance Act

Many homeowners eventually reached a settlement with their insurance companies a year or two or three or four after the hurricane.

In the meantime, taxpayers paid billions of dollars in assistance because of the delays in recovering on insurance policies:

* FEMA Trailers and Cottages
* Homeowner Assistance Grants / Road Home Grants
* Rental Vouchers and Other Housing Assistance
* Subsidized SBA Disaster Loans
* Casualty Loss Tax Deductions and Other Tax Relief
* Additional Assistance to Cities, Counties, and Schools

Multiple Peril Insurance Act

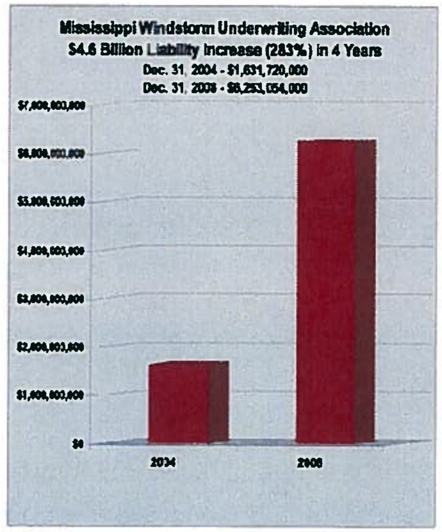


42,000 Families x $31,000/Trailer = $1.3B In Mississippi Alone

Multiple Peril Insurance Act

In the Four Years After Hurricane Katrina, the Total Exposure in the Mississippi Wind Pool Increased by 283% From $1.63 Billion To $6.25 Billion

Last year, the Mississippi Wind Pool had to pay $60 million in reinsurance premiums for $500 million in coverage.
That $60 million does not build up reserves in the Wind Pool; most of it goes to reinsurance companies based in Bermuda.



Multiple Peril Insurance Act

In the Four Years Since Hurricane Katrina, Insurance Companies Have Abandoned Coastal Markets, Dumping More Than $300 Billion in Increased Insurance Liabilities into State-Sponsored Hurricane Risk Pools

FLORIDA - $234 Billion Increase (115%)
TEXAS - $37.8 Billion Increase (182%)
NORTH CAROLINA - $31.6 Billion Increase (132%)
SOUTH CAROLINA - $11 Billion Increase (184%)
MISSISSIPPI - $4.6 Billion Increase (283%)
ALABAMA - $1.5 Billion Increase (448%)
GEORGIA – $1.5 Billion Increase (265%)
Long Island, NEW YORK - $1.65 Billion Increase (47%)

Multiple Peril Insurance Act

Small Business Insurance Costs

Pre-/Post-Katrina Costs, Hancock County, Miss.

BUSINESS TYPE	PRE-KATRINA INSURANCE COST	POST-KATRINA INSURANCE COST	% INCREASE
Dentist	$2,473	$16,554	669%
Attorney	$1,437	$6,350	442%
Real Estate Co.	$7,232	$30,341	420%
CPA	$5,400	$20,400	378%
Small Retailer	$8,000	$30,000	375%
Real Estate Developer	$17,000	$61,000	359%
Church	$20,677	$69,456	336%
Mini Storage	$2,710	$8,316	307%
Library	$26,509	$80,518	304%
Electrical Contractor	$2,086	$8,316	399%

Source: Hancock County Chamber of Commerce, August 2007

Multiple Peril Insurance Act

ISO, the Insurance Industry's Own Analyst, Acknowledges the Need for a Geographically Dispersed Hurricane Risk Pool

"An insurer with policies spread over many areas has a relatively high chance of suffering hurricane losses in any given year. But, in any one year, the insurer faces a relatively low likelihood of suffering losses on a substantial proportion of its geographically dispersed policies.

"An insurer with policies concentrated in one geographic area has a relatively low chance of experiencing any hurricane losses at all in a given year. But if a storm does strike the area where the insurer has concentrated exposures, the insurer faces a higher chance of suffering losses on a substantial proportion of its book of business than does an insurer with more geographically dispersed exposures."

- Managing Catastrophe Risk, ISO Properties, 1996.

Multiple Peril Insurance Act

Wharton Risk Management Center Found that Catastrophe Premiums Are 5 to 10 Times Higher Than the Expected Claims in Some Areas

"...the prices charged for catastrophe insurance must be sufficiently high not only to cover the expected claims costs and other expenses, but also the costs of allocating capital to underwrite this risk. For truly extreme risks, the resulting premium can be as much as 5 to 10 times higher than the expected loss."

-Managing Large-Scale Risks in a New Era of Catastrophes, Wharton Risk Management Center, University of Pennsylvania, 2008, p. 141..

Multiple Peril Insurance Act

Some Insurers Admit That Private Insurance Is Not Suited to Low Frequency, High Severity Disasters

"The private insurance mechanism is not well-suited to low frequency, high severity events. ...An important first step towards the right solution is acknowledging the federal government's critical role in either providing such coverage directly or through a backstop to the private market for high severity natural catastrophes that are otherwise beyond the ability of the private insurance market to handle."

- Michael McCabe, Sr. VP of Allstate, letter to Hon. Maxine Waters and Hon. Judy Biggert, July 12, 2007.

Multiple Peril Insurance Act

RAND Corporation Study Concluded That a Government Program Would Be More Stable Than the Private Market

"Government is not subject to the private-sector factors that produce large swings in premiums around expected loss in private insurance markets. Thus, compared with the private sector, government should be able to set insurance prices closer to expected loss for hurricanes and other catastrophic risks, and keep those prices closer to expected loss over time."

- Lloyd Dixon, James W. Macdonald, and Julie Zissimopoulos, Coastal Wind Insurance in the Gulf States, RAND Gulf States Policy Institute, 2007, p. 8

Multiple Peril Insurance Act

Recap of the Benefits of H.R. 1264

- ✓ **Allows Coastal Property Owners to Buy Coverage For Hurricane Damage With No Gaps, Delays, or Disputes Over Causation**
- ✓ **Stabilizes the Coastal Insurance Market to Stop the Cycle of Market Withdrawals and Premium Increases Following Each Major Hurricane**
- ✓ **Saves Taxpayers and Policyholders by Eliminating the Insurers' Conflict of Interest in Adjusting Separate Wind and Flood Policies**
- ✓ **Saves Taxpayers by Ensuring That More Hurricane Damage will be Covered by Insurance Premiums Instead of by Disaster Assistance**
- ✓ **Reduces Future Hurricane Damage By Requiring Strong Building Codes**
- ✓ **Reduces the Exposure in Overextended State High-Risk Pools**
- ✓ **Allows Small and Regional Insurance Companies to Return to Coastal Areas to Sell Homeowners Insurance Without Exposure to Hurricane Claims**